



GRETCHEN WHITMER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY

RACHAEL EUBANKS
STATE TREASURER

DATE: September 1, 2019

TO: House and Senate K-12 Appropriations Subcommittees

FROM: Rachael Eubanks, State Treasurer

SUBJECT: Quarterly Report - Deficit School Districts Pursuant to MCL §380.1220(2)

Attached please find one copy of the Quarterly Report of Deficit School Districts.

The report is required by Public Act 111 of 2015, the Revised School Code Section 1220(2) provides as follows:

- (1) The State Treasurer shall submit quarterly interim reports to the legislature concerning school districts, ISDs, and PSAs that are subject to periodic financial status reports or are under an enhanced deficit elimination plan (EDEP).
- (2) The State Treasurer shall publicly present those quarterly interim reports to the appropriations subcommittees of the Legislature responsible for K-12 state school aid appropriations. This is the Department's 16th quarterly report to the Legislature.

Additional questions about this report or other related questions for our Division should be directed to Heather Frick, Director of the Bureau of Local Government and School Services at frickh@michigan.gov or (517)335-7463.

Attachments

Cc: Rachel Richards, Director of Legislative Affairs
Joyce A. Parker, Deputy State Treasurer, State and Local Finance

Heather Frick, Bureau Director, Bureau of Local Government and School Services

Michigan Department of Treasury Quarterly Report - Deficit School Districts

On July 7, 2015, the Governor signed into law Public Acts 109-114, giving the Department of Treasury (the Department) additional financial authority and responsibilities over K-12 school districts, intermediate school districts (ISDs), and public school academies (PSAs).

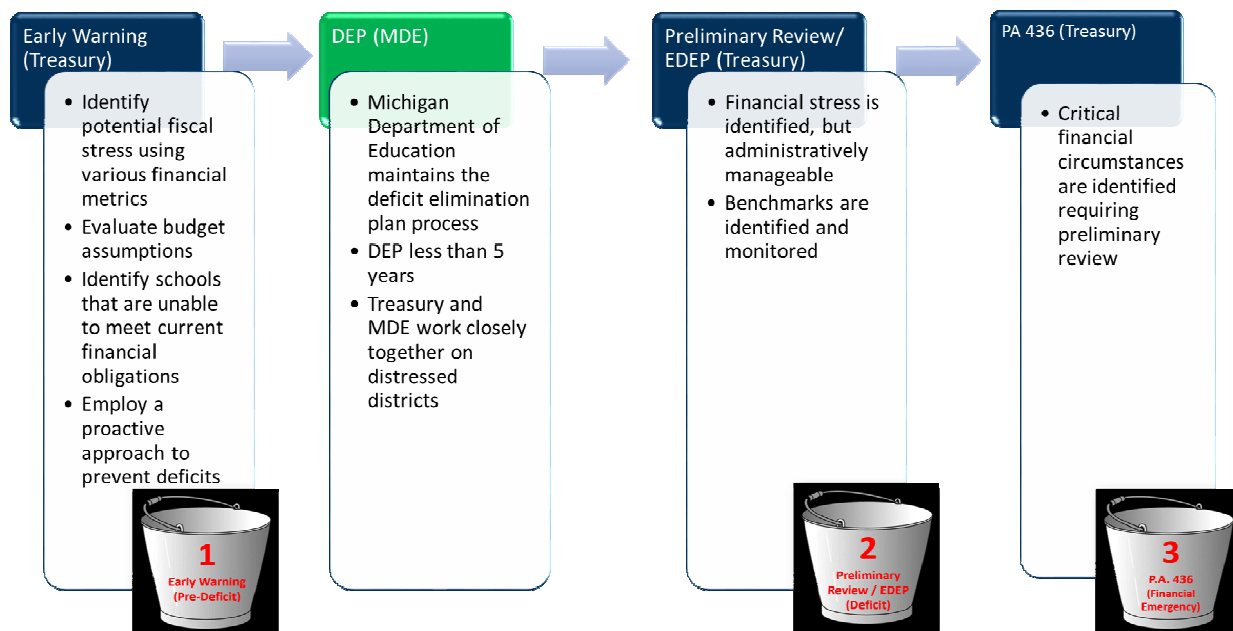
Pursuant to MCL §380.1219(3), the State Treasurer is required to determine whether potential fiscal stress exists within a school district, intermediate school district (ISD) or public school academy (PSA). Pursuant to MCL §380.1220(5), a school district, ISD, or PSA that has not eliminated its deficit within 5 years after the initial DEP is required to submit an enhanced DEP (EDEP) to the Department of Treasury. A school district, ISD, or PSA may also be required to submit an EDEP if they are determined to be subject to “rapidly deteriorating” financial circumstances.

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VISUAL OF PROCESSES

The joint role of the Department of Treasury and the Department of Education is shown below:



EARLY WARNING

Pursuant to MCL §380.1219(3), the State Treasurer is required to determine whether potential fiscal stress exists within a school district, intermediate school district (ISD) or public school academy (PSA); that an operating deficit may arise within a school district, ISD, or PSA during the current school fiscal year or the following 2 school fiscal years; or that a school district, ISD or PSA may be unable to meet its financial obligations while also satisfying the districts, ISDs, or PSAs obligations to provide public education services in a manner that complies with state law.

The Department uses 2 methods to determine the existence of potential fiscal stress. First, a projection model that extrapolates enrollment, revenue, expenditure, and fund balance for the subsequent two school fiscal years using weighted historical trends. Second, the Department pulls budget information from all ~900 district websites to track changes in revenue, expenditure, and identify decreases in fund balance greater than 50%. The Department has back and forth correspondence with identified districts, ISDs, and PSAs before making a final determination of whether potential fiscal stress exists. This includes requesting a corrective action plan, reviewing and evaluating the assumptions, and reaching out to district leadership for additional information where necessary.

Pursuant to MCL §380.1219(5), if the State Treasurer declares that potential fiscal stress exists within a school district, ISD or PSA, then the governing body has 60 days to enter into a contract with an ISD or authorizer to perform an administrative review as an alternative to Treasury oversight. An administrative review requires the contracted ISD or authorizer to provide a review and comparison of the district and applicable peers for financial practices, staffing, building capacity, transportation and other categories outlined in statute. Within 90 days after entering into the contract, the ISD shall complete the administrative review. School districts, ISDs, or PSAs that do not enter into a contract may be subject to Department periodic reporting.

2016 POTENTIAL STRESS

In our office's first year, 2016, 19 districts and PSAs were declared to have potential fiscal stress. Eighteen districts were identified using the financial projection model, and 1 district was identified through budget reviews. Out of the 19 districts, 15 have improved their finances and are no longer subject to early warning reporting, 2 incurred deficits, and 2 remain in potential fiscal stress:

2016	School District/PSA	Administrative Review ISD/Authorizer (Management Co.)	Identified
1	Flat River Academy	Saginaw Valley State University (Midwest Schools Services, Inc.)	Projection Model

2016	School District/PSA	Periodic Reporting ISD/Authorizer (Management Co.)	Identified
2	Multicultural Academy	Bay Mills Community College (Universal Management Company, LLC)	Projection Model

2017 POTENTIAL STRESS

In 2017, 8 districts were declared to have the potential for fiscal stress. Seven districts were identified using the financial projection model, and 1 district was identified through budget reviews. Out of the 8 districts, 4 have improved their finances and are no longer subject to early warning reporting, 2 incurred deficits, 1 closed, and 1 remains in potential fiscal stress:

2017	School District/PSA	Periodic Reporting ISD/Authorizer (Management Co.)	Identified
1	Britton Deerfield Schools	Lenawee Intermediate School District	Projection Model

2018 POTENTIAL STRESS

In 2018, seven (7) districts were declared to have the potential for fiscal stress after being identified by the financial projection model. Out of the 7 districts, 3 districts finances to the point where a deficit can no longer be projected over the timeline defined by statute and are no longer subject to early warning reporting, 1 incurred a deficit and 2 closed. Of note, Detroit Community Schools passed a deficit budget on March 26, 2019. Statutorily, that would have put them under oversight with MDE. However, on June 24, 2019 the Detroit Community Schools passed an amended budget and the district returned to early warning status.

2018	School District/PSA	Periodic Reporting ISD/Authorizer (Management Co.)	Identified
1	Detroit Community Schools (PSA)	Bay Mills Community College (Self-Managed)	Projection Model

2019 POTENTIAL STRESS

For 2019, 15 districts were declared to have the potential for fiscal stress. Six (6) districts were identified by the projection model and nine (9) districts were identified through budget reviews. Out of the 15 districts, 3 have improved their finances to the point where a deficit can no longer be projected over the timeline defined by statute. Three (3) passed deficit budgets and are thereby subject to MDE oversight in the form of a DEP. One (1) charter district was closed after their authorizer revoked the charter. Seven (7) districts remain in potential fiscal stress:

2019	School District/PSA	Administrative Review ISD/Authorizer (Management Co.)	Identified
1	Forest Park School District	Dickinson-Iron ISD	Budget Review

2019	School District/PSA	Periodic Reporting ISD/Authorizer (Management Co.)	Identified
2	Eau Claire Public Schools	Berrien ISD	Projection Model
3	Mio-AuSable Schools	C.O.O.R. ISD	Projection Model

2019	School District/PSA	Periodic Reporting ISD/Authorizer (Management Co.)	Identified
4	Fitzgerald Public Schools	Macomb ISD	Projection Model
5	Merrill Community Schools	Saginaw ISD	Projection Model
6	Beaverton Rural Schools	Clare-Gladwin RESA	Budget Review
7	Clintondale Community Schools	Macomb ISD	Budget Review

REMOVED SINCE PREVIOUS REPORT

Count	School District/PSA	ISD or Authorizer (Management Co.)	Reason	Identified
1	Bradford Academy	Bay Mills Community College (Choice Schools Associates)	Deficit Budget	Budget Review
2	Dollar Bay-Tamarack City Area Schools	Cooper County ISD	Deficit Budget	Budget Review
3	Flint, School District of the City of	Genesee ISD	Deficit Budget	Projection Model
4	Southwest Detroit Community School	Grand Valley State University (EAS Schools, Inc)	Closed	Budget Review
5	Berlin Township S/D #3 (Coon School)	Ionia ISD	Improved	Budget Review
6	Easton Township S/D #6 (Haynor School)	Ionia ISD	Improved	Budget Review
7	Ionia Township S/D #2 (North LeValley School)	Ionia ISD	Improved	Projection Model

ENHANCED DEFICIT ELIMINATION PLANS

Pursuant to MCL §380.1220(5), a school district, ISD, or PSA currently operating under a deficit elimination plan (DEP) that has not eliminated its deficit within 5 years after the initial DEP was submitted to the Michigan Department of Education (MDE) is required to submit an enhanced DEP (EDEP) to the Department of Treasury. A school district, ISD, or PSA may also be required to submit an EDEP if they are determined to be subject to “rapidly deteriorating” financial circumstances, persistently declining enrollment, or other indicators of financial stress.

These districts are required to submit an EDEP for Department approval. In addition to providing an EDEP, these districts must provide additional cash flow and budget-to-actual reporting monthly in a form and manner approved by the Department.

Since 2015, 18* districts have been subject to a preliminary review or EDEP reporting. Of these 18 districts, 7 have eliminated their deficit and are no longer subject to Department oversight. The 11 remaining EDEP districts are as follows:

EDEP	School District/PSA	ISD or Authorizer (Management Co.)	2019 State Aid Enrollment	FY 2018 Audited Balance	FY 2019 Projected Balance
1	Mt. Clemens Community School District	Macomb ISD	1,048.51	\$(128,172)	\$428,517
2	Vanderbilt Area Schools	Cheboygan-Otsego-Presque Isle ESD	86.83	\$(92,145)	\$(86,313)
3	Gwinn Area Community Schools	Marquette-Alger RESA	1,063.36	\$(238,617)	\$(13,555)
4	South Lake Schools	Macomb ISD	1,669.81	\$(1,261,820)	\$(1,518,947)
5	Beecher Community Schools	Genesee Intermediate School District	747.18	\$(672,189)	\$(216,869)
6	Detroit Public Safety Academy	Eastern Michigan University (The Leona Group)	285.39	\$(543,862)	\$(528,288)
7	Bay City Academy	Lake Superior State University (Mitten Educational Management, LLC)	362.47	\$(1,165,058)	\$(939,969)
8	Pinckney Community Schools**	Livingston ESA	2,605.45	\$(166,611)	\$(1,509,716)
9	Hazel Park City School District	Oakland Schools	3,238.50	\$(4,148,964)	\$(862,490)
10	Benton Harbor Area Schools	Berrien RESA	1,852.31	\$(4,425,383)	\$(4,422,143)
11	Pontiac City School District	Oakland Schools	4,158.68	\$(6,684,485)	\$(6,662,485)

*Highland Park City Schools is eliminating its deficit through the capture of school operating taxes. Highland Park City Schools was converted to a PSA in FY 2012-13.

**Principal drivers of Pinckney's 806% increase in the deficit is consistently declining enrollment (averaging over 7% per year over the last five years), coupled with a step increase given to teachers for fiscal year 2019.

PA 436

RECEIVERSHIP TRANSITION ADVISORY BOARD

Muskegon Heights Public Schools

Effective Date: August 8, 2012

RTAB: Established October 28, 2016

State oversight began in 2012 for this this district and it's the last remaining school district under PA 436 oversight. The district continues to meet its debt service obligations and is adhering to the final emergency manager orders.

- Deficit eliminated as of June 30, 2018; budget for FY 2018-19 estimates an ending general fund balance of \$264,385.
- Outstanding long-term obligations include \$13.8M in four emergency loans, \$18.3M in bonded debt, and \$3.5M due to the School Bond Loan Revolving Fund.